

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 DOE-15 SOE-02 ITC-01 /121 W  
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R 270727Z APR 78  
FM AMEMBASSY THE HAGUE  
TO SECSTATE WASHDC 2521  
INFO EC COLLECTIVE

UNCLAS THE HAGUE 2337

E.O. 11652: NA  
TAGS: EFIN NL  
SUBJECT: CENTRAL BANKER CALLS FOR US TO RESTORE ORDER TO  
CURRENCY MARKETS

REF: (A) THE HAGUE 2118, (B) THE HAGUE 1756, (C) THE HAGUE 1100

1. SUMMARY: IN RELEASING HIS ANNUAL REPORT FOR 1977 ON APRIL  
25, NETHERLANDS BANK PRESIDENT JELLE ZIJLSTRA CALLED ON THE  
US TO HELP SOLVE WORLD CURRENCY MARKET DISORDERS THROUGH  
INCREASED INTERVENTION ON FOREIGN EXCHANGES, COMMITTING ITS  
GOLD, SDR'S AND ORDINARY DRAWING RIGHTS TO SUPPORT THE DOLLAR,  
AND SEEKING FOREIGN CURRENCY LOANS AS A FINAL MEASURE.  
ZIJLSTRA PREDICTED DUTCH INFLATION RATE IN 1978 WOULD DECLINE  
TO BETWEEN 4 AND 4.5 PERCENT (DOWN FROM 6.7 PERCENT IN 1977)  
AND SAID DOWNWARD TREND IN INTEREST RATES COULD BE MAINTAINED  
IN THIS CLIMATE. END SUMMARY.

2. ZIJLSTRA SAID 1978 WOULD BE "CRUCIAL" FOR SOLVING WORLD  
CURRENCY MARKET DISORDERS WHICH ENCOURAGE PROTECTIONIST  
TENDENCIES IN INDIVIDUAL COUNTRIES. HE SAID GOOD PROGRESS  
HAD BEEN MADE IN SOLVING PROBLEMS CAUSED BY THE SHARP OIL  
PRICE RISE IN 1974, BUT A NEW BALANCE OF PAYMENTS  
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PATTERN HAS EMERGED WITH THE US DEFICIT BEING FINANCED  
BY OTHER INDUSTRIAL COUNTRIES. THE SHARP DROP OF THE DOLLAR  
AGAINST THE DEUTSCHMARK, SWISS FRANC, YEN AND GUILDER  
DEMONSTRATES THAT THIS PATTERN CANNOT GO ON INDEFINITELY  
WITHOUT CAUSING INFLATION AND SLOWING GROWTH IN COUNTRIES  
FORCED TO HOLD DOLLARS. ZIJLSTRA CALLED FOR INCREASED  
US INTERVENTION ON FOREIGN EXCHANGES AND THE COMMITTING

OF ITS GOLD, SDRI'S AND ORDINARY DRAWING RIGHTS TO SUPPORT THE DOLLAR. AS A FINAL MEASURE, THE US COULD FLOAT FOREIGN CURRENCY LOANS, ZIJLSTRA NOTED.

3. ZIJLSTRA CREDITED THE 4 PERCENT APPRECIATION OF THE GUILDER IN 1977, WHEN COMPARED WITH THE CURRENCIES OF THE MAIN COUNTRIES EXPORTING TO THE NETHERLANDS, WITH REDUCING THE DUTCH INFLATION RATE AND HELPING TO BRAKE THE DUTCH WAGES PRICE SPIRAL. HE NOTED, HOWEVER, THAT THE GUILDER'S APPRECIATION OF ABOUT 6 PERCENT WITH RESPECT TO THE CURRENCIES OF THE MAIN DESTINATION COUNTRIES OF DUTCH EXPORTS, TOGETHER WITH RAPID RISE OF DUTCH WAGES AND PRICES RELATIVE TO COMPETING COUNTRIES, HELPED REDUCE EXPORT VOLUME 2.5 PERCENT IN 1977 AS COMPARED TO 1976. HE NOTED THAT THE MANUFACTURING INDUSTRY WAS MOST SEVERLY AFFECTED BY THE EXPORT SLUMP. THE DECLINE IN THE NETHERLANDS' TRADE POSITION WAS MAINLY RESPONSIBLE FOR THE DROP IN THE BALANCE OF PAYMENTS SURPLUS FROM 7.5 BILLION GUILDERS IN 1976 TO 1.1 BILLION GUILDERS IN 1977 (ON A TRANSACTION BASIS). (NOTE: GUILDER RATE TO THE DOLLAR AVERAGED 2.64 IN 1976 AND 2.45 IN 1977). CAPITAL EXPORTS DECLINED TO 2.9 BILLION GUILDERS IN 1977 FROM 6.9 BILLION GUILDERS IN 1976 MAINLY BECAUSE OF FOREIGN PURCHASES OF DUTCH SECURITIES TOTALING 4.5 BILLION GUILDERS. SERVICE SECTOR RECEIPTS DECLINED

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SLIGHTLY WHILE EXPENDITURES INCREASED 15 PERCENT. DUTCH DIRECT INVESTMENTS ABROAD INCREASED FROM 3 TO 4 BILLION GUILDERS WHILE FOREIGN INVESTMENTS IN THE NETHERLANDS DROPPED SLIGHTLY TO 800 MILLION GUILDERS IN 1977. ZIJLSTRA'S REPORT CREDITED RESTRICTIVE CENTRAL BANK POLICIES WITH HOLDING MONETARY EXPANSION TO 8 PERCENT IN 1977, AN EXPANSIONARY RATE TO BE MAINTAINED IN 1978. THE GOVERNMENT'S BUDGET DEFICIT ON A CASH BASIS AMOUNTED IN 1977 TO JUST OVER ONE PERCENT OF NATIONAL INCOME AS COMPARED TO 4.2 PERCENT IN 1976.

4. COMMENT: ZIJLSTRA'S ANALYSIS OF THE DUTCH ECONOMY COMPLEMENTS THAT OF THE CENTRAL PLANNING BUREAU ( REF A) FINDING A REDUCTION IN INFLATION AS THE ONLY BRIGHT SPOT IN THE ECONOMIC PICTURE. HIS DISCUSSION OF THE WORLD CURRENCY MARKET PROBLEMS PLACING BLAME FOR PRESENT IMBALANCES SQUARELY ON THE RELATIVE OVER SUPPLY OF DOLLARS SEEMS CALCULATED TO PUT PRESSURE ON THE US TO TAKE REMEDIAL ACTION, INCLUDING SEEKING FOREIGN CURRENCY LOANS. ZIJLSTRA'S VIEW, REFLECTING THAT OF OTHER BANKERS AND FINANCE OFFICIALS (REFS B AND C), IS THAT THE US MUST TAKE THE INITIATIVE TO IMPROVE

CURRENCY STABILITY AND THAT IMPORTANT STEPS MUST BE  
TAKEN SOON TO AVOID A POSSIBLE CATASTROPHE.  
BROWN

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## Message Attributes

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**To:** STATE  
**Type:** TE  
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